

Governor's Consensus Revenue Estimating Panel Minutes
State House
Concord, NH
February 8, 2016

Members Present:

Meredith Telus, Governor's Budget Director (Chair)
Carol Lynn Ward, Department of Revenue
Melissa Rollins, Department of Revenue
Gerard Murphy, State Comptroller, Department of Administrative Services
Dick Samuels, McLane Law
Greg Bird, New Hampshire Fiscal Policy Institute
Dick Samuels, McLane Law
By phone: Ross Gittell, Chancellor of the Community College System of New Hampshire

1:00pm Chair opened the meeting.

Ross Gittell started with an overview of the NH economy, noting that overall NH is faring well, with an unemployment rate of 3.1%, and a preliminary unemployment rate for this quarter of 3.0%. It is the lowest in New England and one of the lowest in the nation. New Hampshire's GDP growth is forecast to be 2.4% and employment growth is forecast to be 2.2%. Notably, the employment is broad-based and not dependent on a particular sector. As claims for unemployment are declining, it seems likely overall employment will continue to expand.

Given the growth in durable goods and advanced manufacturing, New Hampshire is well-positioned in the short-term. The risks in the global economy are not insignificant, and in the longer-term that can start to effect New Hampshire as well. Meredith asked Ross to clarify "short-term" versus "long-term." Ross stated this meeting is focused on SFY 2016, which would be the short term, SFY 2017 would be long-term, and as we move out in forecasting, there is more uncertainty. Things should stay positive for this year.

Greg Bird asked whether Ross was utilizing Moody's data. Ross stated some of the growth data is from Moody's which can be optimistic sometimes – both Ross and Greg noted the job growth in 2015 was only 0.7%, therefore 2.2% for 2016 is unlikely given the lack of availability of skilled labor.

Melissa Rollins provided graphs comparing returns, estimates, extensions, tax notices, refunds, and net revenues for business taxes over the first seven months of fiscal years 2013 through 2016. Melissa reported YTD return payments for SFY 2016 were down 2%, estimates are up 14%, extensions down 23% (those are mostly seen in March and April), tax notices up 18%, and refunds down 34%.

Meredith, Gerard, and Melissa noted that business taxes reflected in the revenue focus could include a very small amount of tax amnesty revenue, but not a material amount. In reviewing business tax revenue year-to-date, the panel discussed that estimates for December were the highest they have been in a decade. Did businesses increase those estimates because cash was available knowing they will pay a lower amount in their March-April return?

The panel discussed the concept of a “catch-up year” for business taxes knowing future growth (SFY 2017 and outward) will be slower, but it was unclear, given slow but steady growth over the previous years, why there now be a “catch-up year.”

The panel discussed that profits perhaps have not been growing as much as expected and discussed the breakdown between BET and BPT. Oddly BET did not grow at the same rate as BPT last year – one question is whether businesses hit the level of using a BET credit and were now paying BPT where they weren’t before, increasing the State’s revenues. Melissa checked the tax expenditure report to see if more BET credit was taken. While it is up, the Department changed from using calendar years to fiscal years between 2013 and 2014, so the Department cannot confirm.

Ross Gittell presented a 5.2% business tax growth rate, which is based on half of the 2015 growth, plus 25% of the YTD growth and 25% of the prior growth estimate. Given the growth seen year to date, there would almost have to be a decrease in the next five months to see a net of that amount. But applying the 5.2% to the last half of the year would yield an annualized growth of just under 10%. Meredith noted she had a 9.4% rate based on half of YTD growth and half of last growth estimate. DRA also had a 9.4% rate.

Meredith questioned whether that rate was too low based on YTD growth. Greg felt it was not – NH exporters are genuinely concerned about the strength of the dollar. The panel agreed on a 9.4% rate, for \$620 million revenue.

The panel discussed and did not vary from straight-line projections for:

- Meal and Rentals tax (7%). There is some concern about the lack of snow and unpredictable ski season.
- Tobacco tax (0%)
- Communication tax (-10.1%)

Both the Electricity Consumption and Utility Property taxes are trending slightly above plan, but the panel decided to leave projections at plan for SFY 2016.

DRA reported there were no large transfers which would have affected Real Estate Transfer Tax in the first seven months of this year, i.e., no notable holding company activity which needs to be considered or backed out. Real estate transfers are still trending higher value and higher volume. Greg noted the Realtors Association said the market is strong and this should persist in the near-term. The panel decided to stick with prior growth estimate of 14.5% rather than increase to current YTD of 15.1%.

Gerard had recently reached out to agencies for revenue updates and provided those for the Panel:

- Liquor - \$140 million (\$3.9 below plan)
- Insurance - \$118.3 (no change)
- Courts - \$13.3 (\$500,000 below plan)
- Securities (has no responded yet, assume no change)
- Beer \$13.0 (no change)
- Dog Racing - \$3 million (\$500,000 increase due to law change on table stakes poker)

- Lottery - \$76 million (\$3 million above plan, taking into account instant scratch tickets not recouped from December and additional revenue from Powerball in January)
- Tobacco Settlement – \$42.3 million (no change)
- Medicaid Recoveries - \$9.8 million (no change – the underperformance YTD is due to timing)
- Other – \$71.9 million (no change from plan –there is one known reduction due to the Laconia property (\$2 mil) is very unlikely to be sold in SFY 2016, but other things could come in higher – it's too early to tell).

While year-to-date growth for Interest and Dividends tax shows an increase of 6%, the panel decided to stick with the prior estimate of 3.7%. Greg requested and Melissa provided information showing the breakdown of Interest to Dividend revenue, most of which is coming from individuals. After review, Dick felt it likely the revenue year-to-date is based on last year's return and considering recent stock market performance growth will not hold up when the returns are filed in April.

Tax amnesty currently has about \$5.8 million of revenue, against a \$16 million plan. Melissa noted that in prior amnesty programs, some of the larger payments are made in the last week of the program – meaning the next week could hold some of the larger payments for the tax amnesty program. Still, it is not likely to be \$16 million of revenue. It will more likely be between \$8 and \$10 million.

The chair noted the loss of panel member Denis Delay, which left a hole in the revenue estimating community for the State and for the panel. The Governor is considering names and hopefully a new member will be appointed by the next meeting. The chair stated the next meeting should be early May, to finalize FY 2016, and determine SFY 2017. The following meeting should be in June or early July to project SFY 2018-2019 revenues to start the agency phase of the 2018-2019 budget process. The meeting adjourned at 2:15 pm.